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SUBJECT: TURKMENISTAN: RISING MARKET BASKET COSTS BEGINNING TO BE
 FELT

¶1. (SBU) SUMMARY: As President Berdimuhamedov's latest foreign policy moves continue to receive heavy media play, citizens are beginning to complain about rising food prices. A recent market basket price comparison shows prices have increased an average of 20% since last year. While the reasons for the price rise vary, the increases are beginning to hit just about everybody. Turkmenistan is nowhere close to unrest. With Turkmenistan's foreign exchange reserves expected to hit \$12 billion by the end of the year, Berdimuhamedov has plenty of options available. But for a population used to turning a blind eye to the former president's political excesses as long as they had enough to eat, these latest developments will take some adjustment. END SUMMARY.

¶2. (SBU) A recent routine price check by the Econ assistant revealed an average market basket price increase of 20% over prices for the same items a year ago. As demonstrated in the chart at para 3, there were substantial increases overall. The food staples that increased the most included vegetable oil (a 100% increase), chicken (a 49% increase), rice (a 42% increase) and butter (an 18% increase). We have been told that prices have risen similarly in cities outside Ashgabat. Not reflected in the market basket price comparison is the approximately 15% increase in the price of locally grown seasonal fruits and vegetables this year, including tomatoes and melons.

¶3. (U) Price comparison:

Food Item	Price (8/06)	Price (9/07)	% Change
Bread (1 home-made)	5,000 Manat	5,000 Manat	0
Flour (1 kg)	12,000 Manat	12,000 Manat	0
Rice (1 kg)	12,000 Manat	17,000 Manat	41.67
Tea (1 kg)	80,000 Manat	80,000 Manat	0
Butter (1 kg)	85,000 Manat	100,000 Manat	17.65
Vegetable Oil (1 lit)	25,000 Manat	50,000 Manat	100
Sugar (1 kg)	16,000 Manat	16,000 Manat	0
Beef (1 kg)	45,000 Manat	50,000 Manat	11.11

Lamb (1 kg)	45,000 Manat	50,000 Manat	11.11
Chicken (whole)	47,000 Manat	70,000 Manat	48.94
Milk (1 lit)	7,000 Manat	7,000 Manat	0
Eggs (ten)	18,000 Manat	20,000 Manat	11.11

OIL AND BUTTER PRICES RISE BECAUSE OF LESS COMPETITION

14. (U) According to retailers at the Ashgabat food markets, the increase for vegetable oil and butter is caused by the absence of their cheap Iranian substitutes, upon which the majority of Turkmenistan's citizens relied. Instead, less-tasty Russian substitutes are flooding the market.

15. (SBU) The Director of the National Veterinarian Laboratory, which was responsible for inspecting food markets until 2006, places most of the blame on lengthy custom clearance procedures mandated by Turkmenistan's Ministry of Health. These bureaucratically drawn-out procedures and high customs fines have made it tough for the small private companies who previously provided Iranian products to Turkmenistan's markets to survive. By comparison, the larger companies importing Russian foodstuffs, many of which have connections with the Ministry of Trade, are not only more able to pay customs fines, but also are less likely to face problems due to their connections. Without competition from small businesses and Iranian imports, there is little to keep the larger companies from dictating the prices for vegetable oil and butter -- or from passing on to consumers the increased prices they are themselves paying for these goods in Russia.

AVIAN INFLUENZA PREVENTION MEASURES DISTORT POULTRY PRICES

16. (SBU) By comparison, chicken and egg prices continue to increase due to a government ban on imports of poultry products imposed two years ago in response to concerns over avian influenza. A local

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veterinarian has noted that the ban prevents local poultry farms from importing eggs or chickens to renew their flocks. Meanwhile, existing flocks have become old (the normal productive age of a bird is two years) and non-productive. This has created a shortage of eggs -- and a significant price increase for scanty local supplies. The scarcity of eggs has become especially notable during the month of Ramadan, when Turkmenistan households are most likely to buy eggs for special holiday Iftar dishes.

WATER CONSERVATION MEASURES LEAD TO SHORTAGE OF LOCAL RICE

17. (U) Decreased local rice production also accounts for the 40% increase in prices. In the past, private farmers grew rice on their small family plots in their backyards. Two years ago, the government, concerned by the growing salinization of lands used for rice production and wanting to make more irrigation water available for wheat and cotton, mandated that rice should no longer be grown in "cultural zones" (i.e., lands that used to belong to collective farms in Soviet times), but rather, should be grown only on newly opened lands along irrigation canals. However, because using the newly opened lands required substantial investment, fewer farmers are now growing rice -- leading to a smaller supply and higher prices.

OPENING MARKETS KEEP SEASONAL PRODUCE COSTS HIGH

18. (U) Unlike previous years, the usual sharp summertime dip in the cost of Turkmenistan's locally produced seasonal vegetables and fruits did not occur this summer, and locals have noted a sharp decline as well in the quality of the produce available in the markets. Vendors have attributed this phenomenon to the increased export of Turkmenistan's regionally famous produce -- especially tomatoes and melons -- to Kazakhstan and Russia, made possible by President Berdimuhamedov's efforts to expand international trade ties.

19. (SBU) COMMENT: With flour and salt subsidized by the state and the possibility of supplementing diets with home-canned vegetables purchased cheaply in the summer months, even Turkmenistan's lower-income urban citizens have become accustomed to having

relatively healthful and varied diets. However, the most recent price hikes and shortages are beginning to hit everybody, and citizens are beginning to talk about the higher prices.

¶10. (SBU) Post does not believe that the situation in Turkmenistan is even close to the point where the higher prices will cause starvation and unrest. With Turkmenistan's foreign exchange reserves expected to hit \$12 billion by the end of the year, Berdimuhamedov has plenty of options available. Nonetheless, especially in Turkmenistan, where the population is used to turning inward, all politics are local, and most would rather complain about the rising prices than cheer the president's latest much-publicized foreign policy success. And for a population used to turning a blind eye to the former president's political excesses as long as they had enough to eat, these latest developments will take some adjustment. END SUMMARY.